Reference: **Volume 3, Cost of Capital Report by James Coyne**

Q. **Volume 3, Cost of Capital Report by James Coyne. In Mr. Coyne's opinion are there alternatives other than the existing automatic adjustment mechanism that would be suitable to appropriately adjust the return on equity between general rate applications?**

A. Under more normal market conditions, when interest rates are closer to historical norms, an automatic adjustment formula can produce reasonable returns for a period of 3-5 years, at which point the formula needs to be re-examined and the base ROE should be re-set. However, under recent market conditions, when government bond yields have been well below historical average levels, continued suspension of the formula remains appropriate, as all utility regulators in Canada have determined with the exception of the Ontario Energy Board.